

SECTION THREE: International Economic Trends

3.1. INTRODUCTION

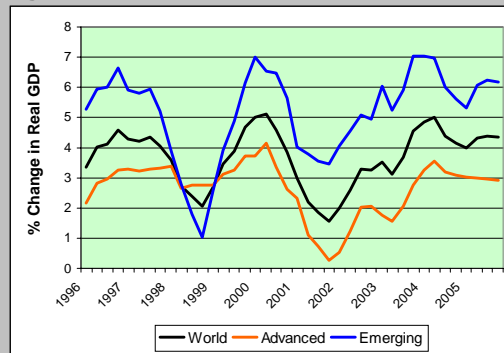
This section of the report presents salient trends in the international market and its implications for the South African economy and labour demand. Economic drivers from an international perspective are highlighted and build up to specific implications for the South African economy on a sectoral basis. The section is concluded with a summary of economic drivers on a sectoral basis.

3.2. THE OUTLOOK FOR THE GLOBAL ECONOMY

A strengthening and broadening of the global economic recovery in the past six months has resulted in an upward revision of anticipated growth rates for 2004 and 2005. The improvement in economic growth prospects is supported by sharp increases in industrial production and world trade, a strengthening of business and consumer confidence in most regions, and strong growth in investment. World gross domestic product (GDP) achieved average annualized growth of almost 6% in the second half of 2003 – due largely to tax-cut induced spending and mortgage refinancing in the United States and a post-SARS (Severe Acute Respiratory Syndrome) recovery in Asia.

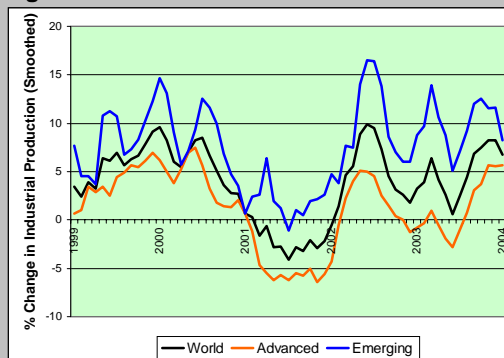
While this level of growth is unlikely to be sustained going forward, the improvements outlined above should support growth in world output of around 4.5% both this year, and in 2005.

Figure 3.1 Growth in Real GDP



Source: IMF World Economic Outlook 2004

Figure 3.2 Industrial Production



Source: IMF World Economic Outlook 2004



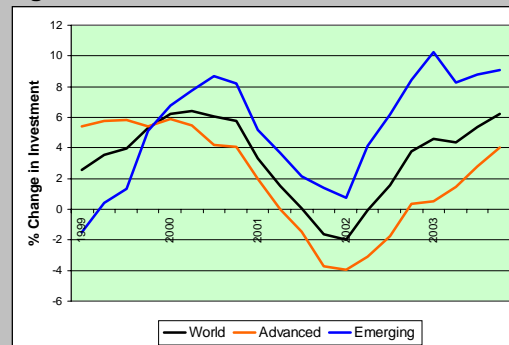
However, the pace and nature of the upturn is likely to vary greatly between different regions. Despite rising concerns about “overheating” in China, the recovery is likely to be strongest in emerging Asia and the United States, and weakest in the European Union. These regional differences are largely the result of variations in the strength of domestic consumption and investment spending that is – in many cases – exacerbating underlying trade and financial imbalances. Much of the latter has been due to uneven developments in world currency markets. While the US dollar has depreciated by around 18% on a trade-weighted basis from its peak of February 2002, the corresponding appreciations of other currencies has been patchy, and is focused mainly on the euro and the yen. Most emerging Asian economies have experienced some appreciation of their currencies against the US dollar, but substantial intervention and a build-up of official reserves have resulted in a depreciation of their currencies in trade-weighted terms. This has meant that large and rising current account surpluses are being sustained despite the strong growth in domestic demand.

According to the International Monetary Fund (IMF), emerging Asia has also been the biggest beneficiary of private net capital flows, receiving \$84 billion of the world’s total of \$131 billion in 2003. They estimate this region’s share of total world net private capital flows at around 72% in 2004, but anticipate a significant reduction in both the relative share and the absolute value of these inflows in 2005. In the absence of sustained intervention aimed at building up foreign reserves, the combination of these anticipated developments, and those in global trade suggest that emerging Asian economies’ currencies should strengthen against those of the major capital exporting countries during 2004. By contrast, Africa’s share of total world net private capital flows is expected to rise from \$ 9.5 billion in 2003 to around \$17 billion in 2005.

Developments in world currency markets and the pace of the global recovery have also had an impact on commodity prices – particularly oil, which has risen by around 36% in US dollar terms in the past year. According to *The Economist* “all items” commodity price index, commodity prices in US dollar terms were 23.3% higher in mid-July 2004 than a year earlier, and were up 6.4% in British sterling terms, 13.1% in Euro terms, and were 12% higher in Japanese yen terms. The strongest rise has been felt in metals prices – which are traditionally the most cyclically volatile of the commodities, and have increased by 43% in dollar terms in the year to July 2004.

In spite of the developments in commodity prices, inflation globally has remained reasonably subdued and is now in single digits in every major region of the world. Because of excess capacity, weak labour markets, and competitive pressures on producers in most industrialized markets, price increases are expected to remain at

Figure 3.3 Global Investment



Source: IMF World Economic Outlook 2004



moderate levels in 2004, and there are no immediate fears about sustained, and significantly higher, rates of inflation beyond that. However, that picture could change if world oil prices move beyond \$50/barrel and remain there for an extended period.

As a group, the recovery in industrial economies is likely to be led by the United States, which is still benefiting from the fiscal and monetary stimuli of the past few years. However, the impact of these measures is waning and although the economy is expected to grow at about 4.5% in 2004, sustaining such rates of expansion into the future will require significant investment and employment growth, combined with a continuation of the productivity improvements that have been a characteristic of the US economy for some time. In Europe household spending remains relatively weak even though there are some early signs of increased fixed capital formation. In the absence of significant policy stimulation – which seems unlikely – the recovery of European economies is likely to be driven from outside, and is expected to average about 1.8% growth in output in 2004, accelerating moderately to 2.5% in 2005. In contrast with Europe, the recovery in Japan is now well under way, with economic growth of 3.5% expected in 2004. This is the fastest rate of expansion that Japan has achieved since 1996, and has been driven in large part by strong external demand from China in particular. However, deflation, banking sector weaknesses and the potential for sharp currency appreciation remain as short-term risks.

In emerging and developing economies, growth has been strongest in emerging Asia – which is expected to experience GDP growth in excess of 7% in 2004. If achieved, this would be the fastest rate of expansion since the 1997/98 Asian Crisis. The recovery has been supported by continued buoyant growth in China and higher than expected growth in India, which has contributed to rapid growth of investment and exports – particularly within the region. In Latin America, growth has been constrained by the performance of the Brazilian economy. However, the rate of expansion in output is expected to accelerate during 2004 on the back of higher commodity prices, the continued recovery of the global economy and stronger domestic demand. The fact that many countries within the region continue to be dependent on international borrowing increases the risks to the region of a significant increase in interest rates in the major capital exporting countries – but this is not expected to be a significant factor in either 2004 or the first half of 2005.

Elsewhere, strong expansions in Russia and Ukraine have raised GDP growth prospects in the Commonwealth of Independent States, but the performance of the rest of central and eastern Europe is being constrained by their closer economic links to a European Union that is still struggling to gain momentum. While still relatively strong, growth in the Middle East is expected to slow from 2003 levels due to some decline in oil production. Although many of these economies are being boosted by current high oil prices, they could experience severe shocks in the event that global oil markets regain their balance and crude prices drop accordingly. In Africa, GDP growth was a fairly robust 4.4% in 2003, and is expected to strengthen further in 2004 because of rising oil and gas production, higher commodity prices, and general improvements in economic fundamentals. Political instability remains a major source of risk, however.

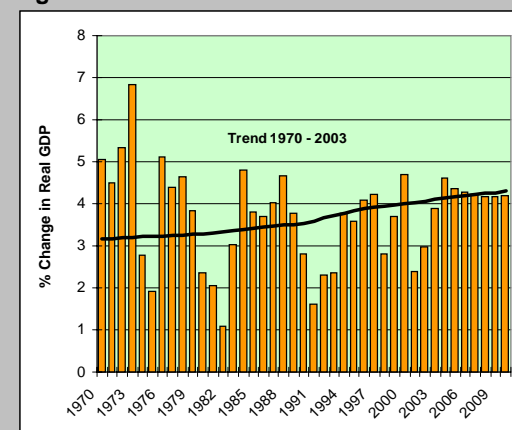


The developments outlined above are expected to facilitate a growth in world GDP of around 4.5% in both 2004 and 2005, with the most significant risks being further terrorist attacks and geopolitical instabilities, and a significant increase in global oil prices. Beyond that, the performance of the global economy is likely to be influenced by the following factors:

- Significant global financial imbalances that are dominated by the large current account and fiscal deficits in the United States, and surpluses in emerging Asia. In 2004, the US fiscal deficit is expected to reach 4.8% of GDP, and accumulated net government debt is expected to exceed 50% of GDP, and to rise to almost 55% of GDP by 2009. By contrast the newly industrializing economies of Asia are expected to average current account surpluses of more than 6% of GDP in 2004, and 5.5% of GDP in 2005. The unwinding of these global trade and financial imbalances is likely to impact on economic growth in the medium term – particularly in the United States. It could also give rise to sharp exchange rate-induced shocks and accompanying interest rate hikes that would disrupt the global economy, and rising protectionist pressures that run counter to the objectives of the Doha Round negotiations of the World Trade Organisation.
- Many industrialized economies – particularly in Europe – face the problem of relatively high levels of accumulated fiscal debt combined with the challenge of aging populations that are increasing pressures on the fiscus. Addressing this problem will require unpopular decisions and actions – particularly in relation to pension and health care systems – that will be hard to push through without strong political mandates and a widespread recognition on the part of the population of the need for change. A failure to do so will result in upwards pressure on global interest rates in the future - as governments increasingly try to borrow their way out of trouble - or increases in tax rates in these countries that could serve to undermine their global competitiveness.
- Making the necessary adjustments to global fiscal imbalances is likely to be made harder in the medium term by the fact that interest rates in many markets are currently artificially low, and will be forced to rise significantly. This will impact on asset prices, such as house prices, which have risen sharply in recent years in response to the widespread access to cheap finance. Managing monetary policy in this environment will be difficult, and is likely to diverge significantly from region to region.

A key challenge in addressing present global imbalances will be achieving some element of global coordination of policy interventions that should – according to the IMF - encompass the following elements:

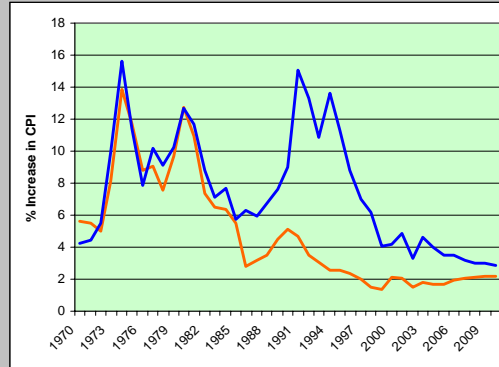
Figure 3.4 World Growth in Real GDP



Source: IMF World Economic Outlook 2004



- i) Adoption by the next term's leadership of the United States of a credible plan to restore budgetary balance;
- ii) Increasing the pace of structural reform in the Euro area, including increased labour market flexibility and pension and health care reforms;
- iii) Further reforms of the Japanese banking and corporate sector; and
- iv) Adoption of more flexible exchange rate systems in emerging Asia – particularly in those countries with very large current account surpluses and high levels of reserves.

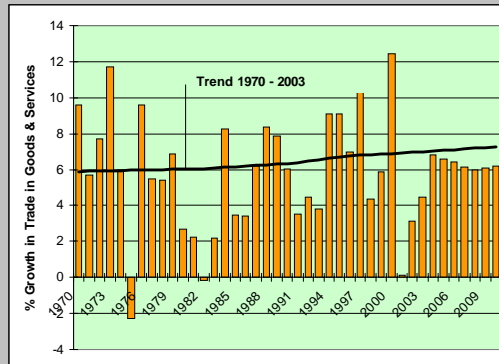
Figure 3.5 Consumer Price Inflation

Source: IMF World Economic Outlook 2004

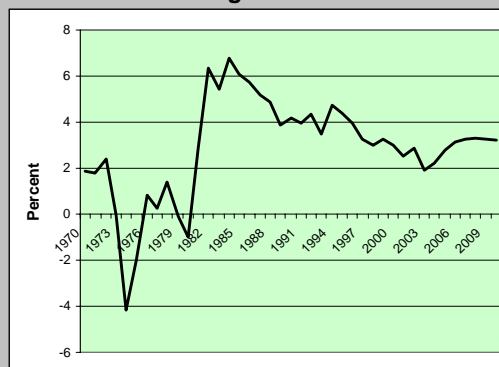
The above actions also need to be set within the context of the Millennium Development goals, which aim – amongst other things - to halve world poverty (judged against its 1990 levels) by 2015.

In the light of the platform for global economic growth created by the consolidation of the upturn in 2004 and 2005, and the various factors listed above that are expected to impact on world growth trends between 2005 and 2010, the following broad medium-term economic environment is anticipated:

- i) An average expansion of world output that is slightly lower than 2004/5 levels but which is nonetheless likely to be around 3,9% per annum;
- ii) An average annual growth in real per capita GDP of around 2,8% per annum;
- iii) A growth in world trade in goods and services that averages about 6% per annum between 2005 and 2010, but which slows from around 7% in 2004;
- iv) A moderate increase in consumer price inflation in advanced economies, to average around 2,2% per annum between 2005 and 2010,

Figure 3.6 World Trade Volumes

Source: IMF World Economic Outlook 2004

Figure 3.7 World Real Long-term Interest Rates

Source: IMF World Economic Outlook 2004



- accompanied by further declines in average inflation in developing economies – which is expected to average about 3% a year over the same period;
- v) An increase in average world real long-term interest rates from current (2004) levels of about 1,6% to around 3%; and
 - vi) A marginal decline in average non-oil commodity prices in real terms from 2004 levels back to those that existed in 2001/2.

3.3. SECTORAL TRENDS IN VISIBLE WORLD TRADE

In the context of a production function, the demand for labour is derived from the volume of production required, the relative costs and availability of different factors of production, and the prevailing technological base. In a globalising world, where international trade is accounting for increasingly higher shares of total output, world trade is likely to provide a reasonably accurate proxy of underlying production trends. Within this context, international trade trends at a sectoral level are likely to provide an indication of the nature and extent of structural changes in supply and demand globally, from which it may be possible to derive implications for the demand for labour in different sectors. By disaggregating such trends and analyzing patterns in developed and developing economies, some indication of the nature and extent of shifts in labour demand between different regions, or between industrialized and emerging markets can be observed. The biggest shortcoming in this analysis is that it is focused – by virtue of the availability of data - only on visible (or merchandise) trade and that it therefore ignores developments in, and the labour market implications of, the trade in services. Many areas of global services trade – including tourism and communication - have experienced rapid growth in recent years.

According to SA Trade Map figures developed by the International Trade Council, which rely on data reported by member countries, global visible trade expanded at an average annual rate of 4% per annum between 1998 and 2002. In 2002 the aggregate value of such trade was US\$6 014 129 million, of which South Africa contributed US\$23 064 million or 0,4%. By value, the most significant trade in 2002 occurred in the product categories indicated in Table 2.1 below.

Table 3.1 Top 5 product categories by value in world visible trade - 2002

	Product Category	Value in US\$ in 2002
1	Nuclear reactors, boilers, machinery etc	\$882 295 m
2	Electrical, electronic equipment	\$878 179 m
3	Vehicles, other than railway, tramway	\$586 014 m
4	Mineral fuels, oils, distillation products	\$511 261 m
5	Plastics and articles thereof	\$192 542 m
	Collective share of top 5 in total world visible trade	50%

Source: SA Trade Map (COMTRADE data)

Amongst the “Developed” group of countries, the top 5 export categories by value in 2002 were as indicated in Table 3.2.



Table 3.2 Top 5 product categories by value in developed country visible trade - 2002

	Product Category	Value in US\$ in 2002	Share of World Category Total
1	Nuclear reactors, boilers, machinery etc	\$622 411 m	68%
2	Vehicles, other than railway, tramway	\$477 712 m	83%
3	Electrical, electronic equipment	\$507 292 m	52%
4	Mineral fuels, oils, distillation products	\$173 128 m	28%
5	Optical, photo, technical, medical, etc apparatus	\$152 004 m	78%
	Collective share of top 5 in total developed country visible trade	49%	

Source: SA Trade Map (COMTRADE data)

The corresponding data for the “Developing” group of countries were as indicated in Table 3.3 below.

Table 3.3 Top 5 product categories by value in developing country visible trade - 2002

	Product Category	Value in US\$ in 2002	Share of World Category Total
1	Electrical, electronic equipment	\$400 467 m	44%
2	Mineral fuels, oils, distillation products	\$338 133 m	55%
3	Nuclear reactors, boilers, machinery etc	\$259 884 m	28%
4	Vehicles, other than railway, tramway	\$78 721 m	13%
5	Articles of apparel, accessories, not knit or crochet	\$68 772 m	63%
	Collective share of top 5 in total developing country visible trade	56%	

Source: SA Trade Map (COMTRADE data)

The above tables show significant convergence between developed and developing economies in respect of the most significant product categories by value, and also indicate that global merchandise trade is dominated by a relatively small number of product categories. By comparison, clothing emerges as a more significant source of export earnings for developing economies than for developed ones – where the category ranks only 23rd in terms of importance by value.

Aggregate values of export trade provide an indication of the static importance of different product categories, but the rate of change/growth in exports provides a better indicator of dynamic changes in the structure of supply and demand. Conceptually, there are four possibilities that may emerge from such an analysis:

- i) Growth in total world trade for a specific product category is positive, and a specific country's/region's/group of countries' exports are growing at a faster rate than the world average. This would imply that that country, region, or group of countries has acquired some sort of competitive advantage in the production of that product, and is gaining market share. The medium-to-long-term prospects for such a product category would typically be positive.



- ii) Growth in total world trade for a specific product category is positive, and a specific country's/region's/group of countries' exports are growing at a slower rate than the world average, or growth is negative. This would imply that that country, region, or group of countries may be declining in competitiveness in the production of that product, and is losing market share. The medium-to-long-term prospects for such a product category are nonetheless still likely be positive.
- iii) A specific product category is experiencing negative growth in world trade, but the growth of a specific country's/region's/groups of countries' exports of that product is positive. This would imply that that country, region or group of countries has acquired some competitive advantage in the production of that product, but that the medium-to-long-term outlook for that product category is probably negative.
- iv) A specific product category is experiencing negative growth in world trade, and the growth of a specific country's/region's/groups of countries' exports of that product is also negative. This would imply that that country, region or group of countries has lost competitiveness in the production of that product, and that the medium-to-long-term outlook for that product category is probably negative.

Table 2.4 indicates the product categories in which exports from developing economies have enjoyed higher (or at least the same) average growth as the growth in world trade in that product – which is also positive.

This analysis may imply that employment opportunities are being created in the production of these products in developing countries at a faster (or at least similar) rate as in developed countries, in a product category that also has a positive long-term outlook.

The large number of product categories in which such a situation occurred between 1998 and 2002 is encouraging – although such an analysis does not indicate which specific developing countries may have benefited from the growth in employment opportunities.



Table 3.4 Product categories with a positive outlook where developing economies are gaining/maintaining market share

HS Code	Description	Export Growth in Developing Countries (%)	Growth in World Exports (%)	Net Export Growth in Developing Countries (%)
27	Nuclear reactors, boilers, machinery, etc	9	2	7
84	Furniture, lighting, signs, prefab buildings	11	4	7
87	Glass and glassware	11	4	7
61	Electrical, electronic equipment	11	5	6
39	Optical, photo, technical, medical, etc apparatus	11	5	6
90	Residues, wastes of food industry, animal fodder	9	3	6
72	Stone, plaster, cement, asbestos, mica,articles	7	1	6
29	Furskins and artificial fur, manufactures thereof	11	5	6
95	Organic chemicals	11	6	5
94	Tanning, dyeing extracts, tannins, pigments etc	7	2	5
64	Tools, implements, cutlery, etc of base metal	7	2	5
73	Ceramic products	5	0	5
3	Essential oils, perfumes, cosmetics, toileteries	11	6	5
40	Dairy products, eggs, honey, edible animal product	5	0	5
42	Musical instruments, parts and accessories	5	0	5
76	Vehicles other than railway, tramway	8	4	4
48	Plastics and articles thereof	8	4	4
54	Articles of iron or steel	6	2	4
74	Aluminium and articles thereof	6	2	4
26	Other made textile articles, sets, etc	9	5	4
99	Miscellaneous articles of base metal	8	4	4
8	Printed books, newspapers, pictures etc	5	1	4
15	Live trees, plants, bulbs, roots, cut flowers etc	6	2	4
63	Articles of apparel, accessories, not knit or crochet	4	1	3
28	Rubber and articles thereof	4	1	3
41	Meat, fish and seafood food preparations nes	6	3	3
38	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	5	2	3
60	Beverages, spirits and vinegar	6	3	3
10	Articles of apparel, accessories, knit or crochet	5	3	2
9	Ships, boats and other floating structures	5	3	2
23	Knitted or crocheted fabric	4	2	2
91	Meat and edible meat offal	5	3	2
70	Salt, sulphur, earth, stone, plaster, lime and cement	2	0	2
16	Miscellaneous manufactured articles	2	0	2
17	Special woven or tufted fabric, lace, tapestry etc	5	3	2
7	Fertilizers	3	1	2
32	Cereal, flour, starch, milk preparations and products	6	4	2
82	Headgear and parts thereof	6	4	2
12	Cork and articles of cork	4	2	2
30	Wood and articles of wood, wood charcoal	2	1	1
83	Paper & paperboard, articles of pulp, paper and board	3	2	1
20	Copper and articles thereof	2	1	1
2	Raw hides and skins (other than fur skins) and leather	7	6	1
22	Miscellaneous chemical products	4	3	1
25	Soaps, lubricants, waxes, candles, modeling pastes	5	4	1
96	Albuminoids, modified starches, glues, enzymes	5	4	1
33	Other base metals, cermets, articles thereof	1	0	1
59	Manufactures of plaiting material, basketwork, etc.	9	8	1
58	Explosives, pyrotechnics, matches, pyrophorics, etc	1	0	1
68	Toys, games, sports requisites	2	2	0
21	Footwear, gaiters and the like, parts thereof	2	2	0
34	Cotton	1	1	0
49	Inorganic chemicals, precious metals, compound, isot.	3	3	0
31	Edible vegetables and certain roots and tubers	3	3	0
86	Impregnated, coated or laminated textile fabric	1	1	0
19	Miscellaneous edible preparations	3	3	0
4	Milling products, malt, starches, insulin, wheat gluten	1	1	0

Source of basic data: SA Trade Map (COMTRADE data)



The product categories in which developing countries are gaining (or at least maintaining) market share, but which have a negative longer-term outlook because of a decline in total trade are indicated in Table 3.5. Jobs may be created and/or sustained in these product sectors in developing countries in the short-to-medium term, but their longer-term sustainability may be at risk.

Table 3.5 Product categories with a negative outlook where developing economies are gaining/maintaining market share

HS Code	Description	Export Growth in Developing Countries (%)	Growth in World Exports (%)	Net Export Growth in Developing Countries (%)
85	Commodities specified at chapter level only	72	-4	76
62	Lead and articles thereof	5	-2	7
71	Manmade staple fibres	2	-4	6
89	Arms and ammunition, parts and accessories thereof	-1	-6	5
52	Railway, tramway locomotives, rolling stock, equip.	4	-1	5
44	Photographic or cinematographic goods	4	-1	5
55	Manmade filaments	0	-3	3
24	Animal,vegetable fats and oils, cleavage products, etc	-4	-5	1
88	Carpets and other textile floor coverings	-1	-2	1
69	Wool, animal hair, horsehair yarn and fabric thereof	0	-1	1
18	Silk	-1	-2	1
47	Sugars and sugar confectionery	0	0	0
57	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0	0	0
51	Zinc and articles thereof	-1	-1	0
37	Vegetable textile fibres nes, paper yarn, woven fabric	0	0	0
67	Tin and articles thereof	-7	-7	0

Source of basic data: SA Trade Map (COMTRADE data)

Table 3.6 Product categories with a positive outlook where developing economies are losing market share

HS Code	Description	Export Growth in Developing Countries (%)	Growth in World Exports (%)	Net Export Growth in Developing Countries (%)
56	Iron and steel	0	1	-1
65	Fish, crustaceans, molluscs, aquatic invertebrates	2	3	-1
6	Articles of leather, animal gut, harness, travel goods	3	4	-1
1	Vegetable, fruit, nut, etc food preparations	0	1	-1
43	Cocoa and cocoa preparations	0	1	-1
35	Bird skin, feathers, artificial flowers, human hair	1	2	-1
53	Mineral fuels, oils, distillation products, etc	14	16	-2
50	Ores, slag and ash	1	3	-2
98	Edible fruit, nuts, peel of citrus fruit, melons	-2	0	-2
81	Products of animal origin, nes	-2	0	-2
75	Pulp of wood, fibrous cellulosic material, waste etc	0	3	-3
66	Aircraft, spacecraft, and parts thereof	-1	2	-3
13	Lac, gums, resins, vegetable saps and extracts nes	-1	2	-3
36	Works of art, collectors pieces and antiques	2	6	-4
78	Live animals	-3	1	-4
93	Commodities not elsewhere specified	-3	2	-5
14	Pharmaceutical products	9	16	-7
97	Pearls, precious stones, metals, coins, etc	-4	3	-7
45	Nickel and articles thereof	-5	7	-12

Source of basic data: SA Trade Map (COMTRADE data)



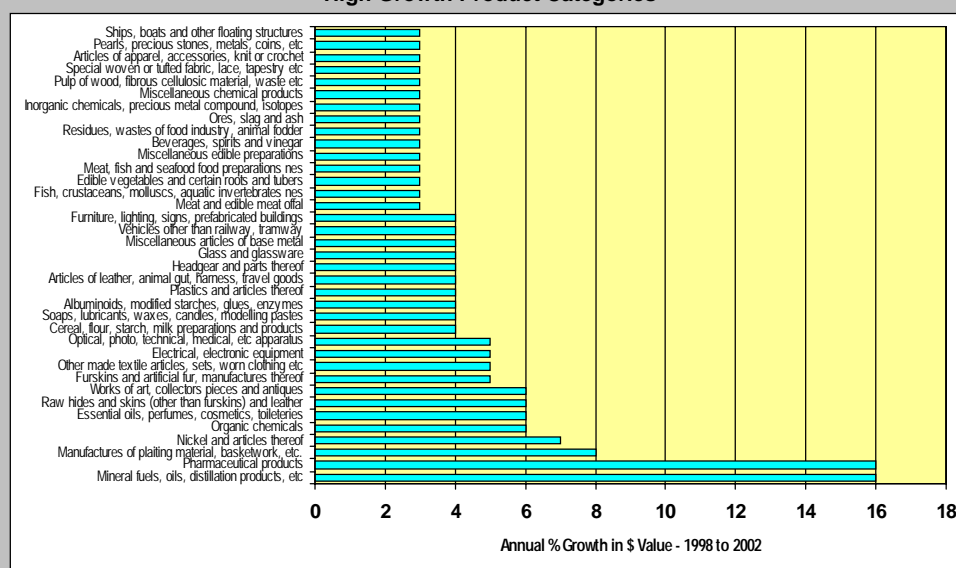
Table 3.7 Product categories with a negative outlook where developing economies are losing market share

HS Code	Description	Export Growth in Developing Countries (%)	Growth in World Exports (%)	Net Export Growth in Developing Countries (%)
79	Cereals	-3	-2	-1
92	Umbrellas, walking-sticks, seat-sticks, whips, etc	-7	-6	-1
5	Clocks and watches and parts thereof	-4	-2	-2
11	Tobacco and manufactured tobacco substitutes	-6	-4	-2
46	Vegetable plaiting materials, vegetable products nes	-4	-2	-2
80	Coffee, tea, mate and spices	-16	-13	-3

Source of basic data: SA Trade Map (COMTRADE data)

Table 3.6 below indicates product categories in which world trade is growing, but in which collective exports from developing countries are either not growing at the same pace, or are declining. This may imply a shift in employment opportunities in these product categories away from developing economies to developed economies, but could also indicate a future potential on the part of developing economies to create employment opportunities in these product sectors if they are able to increase their competitiveness in this type of production.

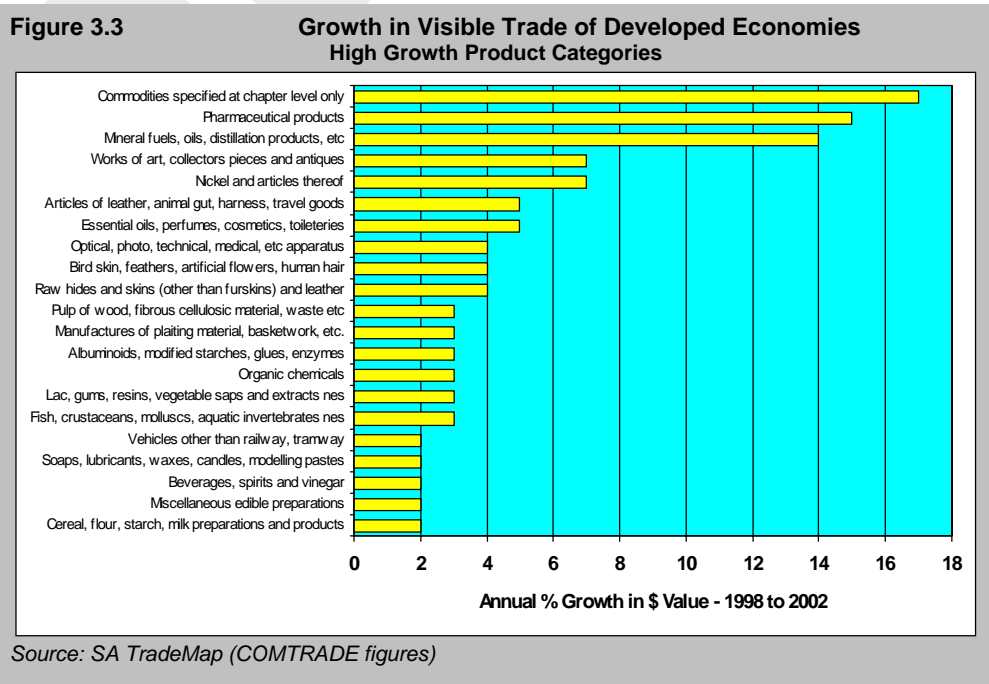
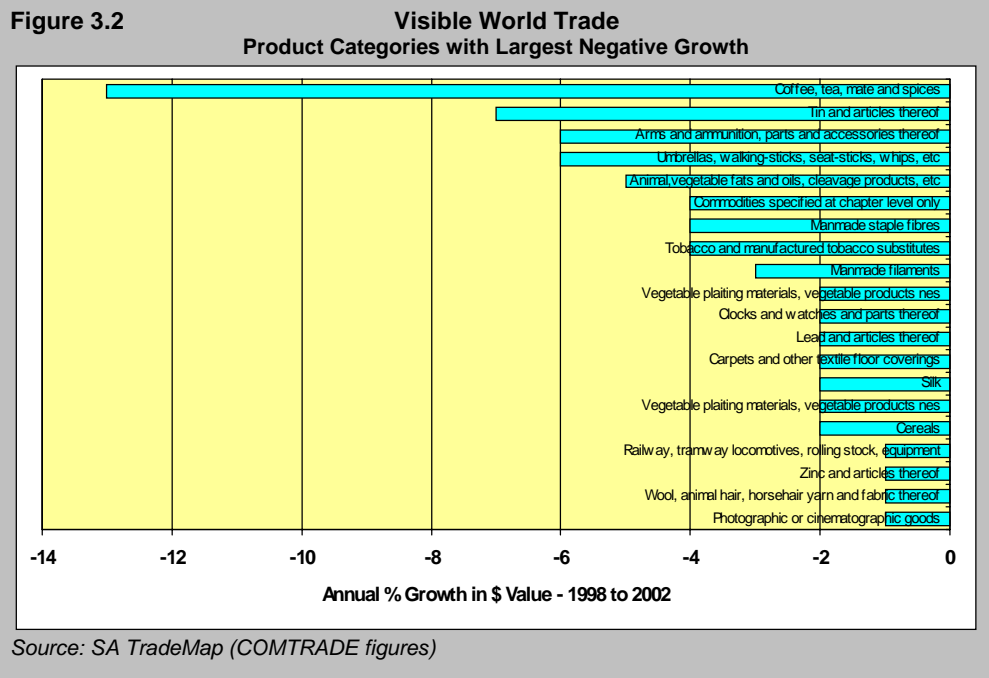
The rate of growth in trade in particular product categories probably also has implications for employment opportunities. Figures 3.1 to 3.6 indicate the product categories that have the fastest growing and most rapidly declining export growth rates for the world, developed economies, and developing economies respectively.

Figure 3.1 Growth in Visible World Trade High Growth Product Categories

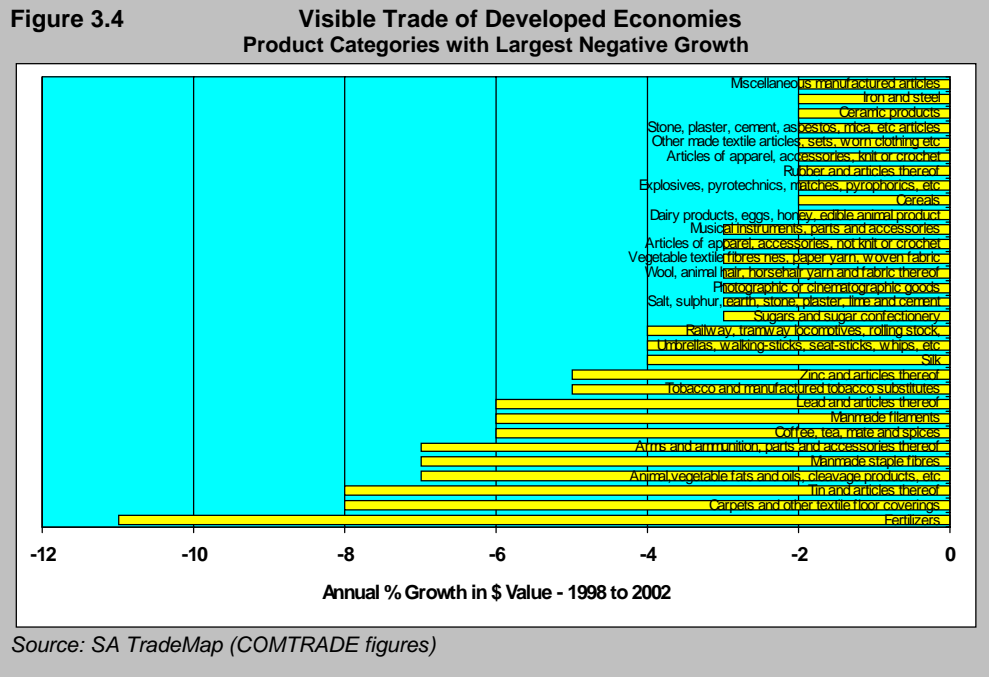
Source: SA TradeMap (COMTRADE figures)



Figure 3.1 above indicates that mineral fuels, oils and distillation products, and pharmaceutical products have experienced particularly strong growth in world trade by value – averaging 16% per annum between 1998 and 2002. A number of other product categories have also performed reasonably well, but there is no clear trend in terms of the product types that have enjoyed strong growth rates.



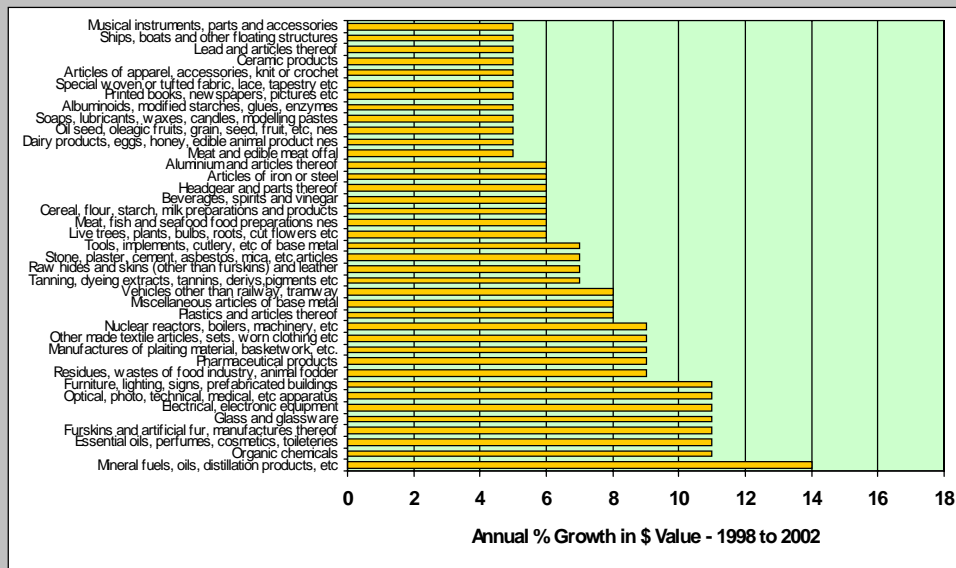
The product categories that have experienced the sharpest declines in world trade (Figure 3.2) are coffee, tea, mate and spices, tin and articles of tin, and arms and ammunition.



Once again, there does not appear to be any consistent trend in respect of the type of product categories in which trade is declining rapidly – although some element of technological redundancy may be evident in areas such as clocks and watches, railway equipment, and photographic equipment.

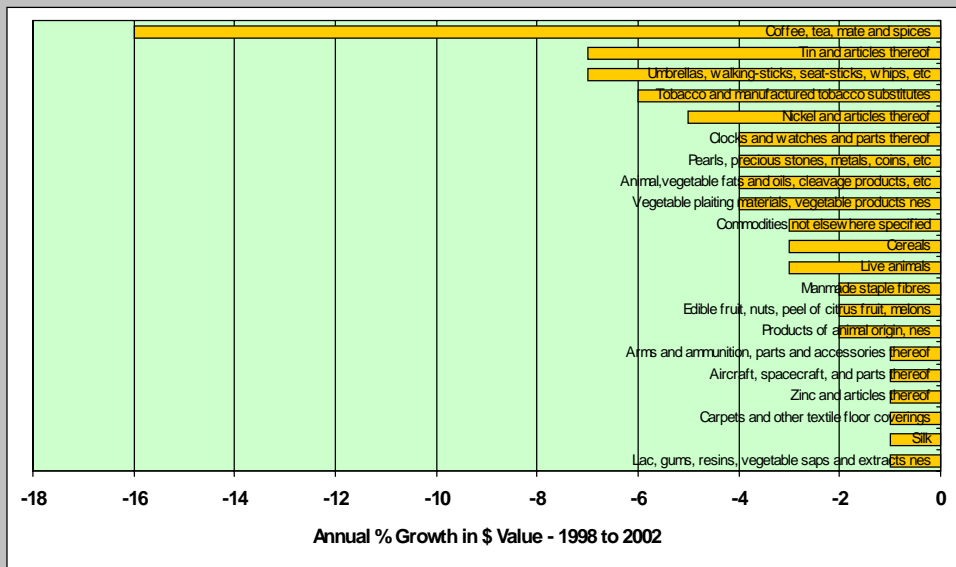


**Figure 3.5 Growth in Visible Trade of Developing Economies
High Growth Product Categories**



Source: SA TradeMap (COMTRADE figures)

**Figure 3.6 Visible Trade of Developing Economies
Product Categories with Largest Negative Growth**



Source: SA TradeMap (COMTRADE figures)

From the perspective of developed economies, the best performing export product categories between 1998 and 2002 were commodities specified at chapter level only, pharmaceuticals, and mineral fuels, oils and distillates.

The relatively strong performance of categories such as art works and essential oils, perfumes and cosmetics may point towards differences in income levels and branding. The product categories where developed country exports fared worst were fertilizers, carpets and textiles, and tin and tin articles.



In the case of developing economies, the fastest-growing export product categories were mineral fuels, oils and distillates, organic chemicals, essential oils, perfumes and cosmetics, furs, glassware, and electrical and electronic equipment. The product categories that experienced the largest declines in export value were coffee, tea and spices, tin and tin articles, umbrellas, walking sticks, whips and tobacco.

3.4. LIKELY DRIVERS OF FUTURE INTERNATIONAL DEVELOPMENTS IN ECONOMIC SECTORS

While recent trends in world trade may provide some indication of underlying structural changes in the global economy, they do not necessarily provide a good indication of likely future developments in specific economic sectors, or of the impact of such developments on the labour market. For this reason, this section of the study concludes with an examination of some of the key drivers that are anticipated to impact on the performance of specific sectors of the global economy in the coming five to six years (up till 2010). These drivers include likely technological developments, new institutional arrangements, population trends, and shifts in regional economic power. The extent to which their impact on world labour markets is replicated in South Africa will depend in part on the degree to which this country is integrated into that sector of the global economy, and on specific policy interventions adopted locally.

3.4.1. Agriculture, Forestry and Fishing

A. Agriculture

Latest developments in the Doha Round of the World Trade Organisation negotiations suggest that some agreement that allows improved access of agricultural exports from developing economies to advanced nations will be reached. This is likely to be accompanied by some (marginal) reductions in agricultural subsidies in both the EU and the US. It remains to be seen whether South Africa will benefit from these developments, but it seems unlikely. More likely is that the growth and development of agricultural sectors in poorer countries will result in increased competition for South African agricultural exports, and will probably curtail farming commodity prices over time. However, the ability of many poorer countries to take advantage of an improved trade environment will be determined by their transport and logistics infrastructure.

Greater volatility in weather patterns as a result of global warming, and an ongoing desire on the part of most countries for food security is likely to result in increased prevalence of strategic stockpiling of certain foodstuffs – particularly grains.

Positioning in relation to genetically-modified foodstuffs could be a strategic consideration in the medium-term, but (assuming no significant adverse effects are identified) this is likely to wane in importance as time passes. Identifying agricultural produce as non- GM food could constitute an important product differentiator and value-add, and yield higher prices.



It is expected that by 2010, most natural disasters will be effectively predicted.

B. Forestry

Recent trade trends suggest that moderate growth in output is likely. Greater regionalisation of forestry activity is expected, as forest owners and pulp and paper manufacturers try to position facilities close to main markets. Competition from agriculture, industry and households for water resources is likely to force some forestry operations to relocate to “water-rich” regions. Global warming could increase the risks of fire damage.

C. Fishing

A continued decline in traditional fish stocks is likely. In the longer-term, this is likely to drive up prices - which could improve the relative attractiveness of commercial fish farming. In the medium term there could be increased international tensions over the rights to exploit non-traditional fish stocks, and poaching.

3.4.2. Mining and Quarrying

There have been significant shifts in world trade in certain metals, minerals and ores in recent times. The most significant of these has been a move away from non-ferrous metals, which has been driven by relatively high commodity prices.

Platinum group metal demand is expected to remain strong over the medium term, due to relatively strong growth in the automotive sector, and concerns over exhaust emissions. However, in the longer-term, demand will be vulnerable to movements away from internal combustion engines and/or fossil fuels.

Future demand for certain other metals should be influenced by aspects such as miniturisation and the use of new composite materials.

Demand for coal – particularly from China and India which are expected to account for around 70% of the growth in demand – is likely to be strong.

3.4.3. Manufacturing

In general, the manufacturing sector is likely to be characterized by increasingly shorter product life cycles – particularly in the higher-value-added sectors, where life cycles in many product categories could decline to less than one year within the next decade.

A. Electrical and electronic equipment

The increasing expansion of nanotechnology – which is expected to result in a doubling of the number of transistors on a silicon chip every two years will continue to create new applications for electronics. As a result, the general expectation is for



almost double-digit annual growth in sales until 2013. The laws of physics are expected to act as a constraint on further miniturisation – but only after 2020.

The costs of building a new semi-conductor plant is expected to double every four years (from \$3 billion in 2003 to \$7 billion in 2007).

The regional shift is computer and office equipment production away from the EU, US and Japan in favour of East Asia is expected to continue.

B. Chemicals

Chemicals have been one of the most buoyant components of merchandise trade in recent years – due largely to significant growth in pharmaceuticals.

C. Ferrous metals

Strong growth in Chinese demand for steel in particular is anticipated, but total world demand is expected to increase at a much slower pace. Trade in steel is tending to regionalize – due mainly to associated transport costs.

D. Clothing and textiles

Going forward, growth in the trade in clothing and textiles is likely to be similar to the growth in world merchandise trade generally – i.e. about 4% per annum. China dominates global production, and is likely to continue to do so, but African exports of clothing and textiles to the US have expanded rapidly in recent years due to the American Growth and Opportunities Act (AGOA). The extension of this arrangement should expand production opportunities.

Technology is likely to play an increasingly important role in the development of specialized textiles with “energy storing” and “temperature management” capabilities.

E. Pharmaceuticals

Growth in output and trade has outperformed global averages in recent years. This is likely to continue because of demographics and rising disposable incomes in the developed world. Affordability and intellectual property protection will continue to be issues in the developing world, which is likely to result in a further shortening of time spans until generic alternatives become available. The search for biotechnological and “natural” alternatives will continue, and these products will generally show strong growth in output.

In the long-term some product categories could be threatened by genetic modification of human embryos.

F. Motor vehicles and components

There has been a relatively strong recovery in the global trade of automotive vehicles and components since the 2001 slump. This is expected to continue, driven by strong



demand growth in emerging Asia (China and India in particular). However, total demand is still dominated by EU and US – which still account for around two thirds of world production.

There is currently excess production capacity globally, and this has increased pricing pressures on producers. Production costs in China are increasingly being used as a benchmark for other production facilities. The clustering of component production, assembly and service providers is likely to continue and expand.

Increasing traffic congestion, availability of parking spaces and the higher price of fuel is likely to contribute to further downsizing in vehicles – especially in Europe and Japan.

3.4.4. Electricity, Gas and Water

Total world consumption of marketed energy is expected to expand by 54% between 2001 and 2025 – with demand from developing countries for primary energy expected to grow at more than double that of the developed world (2,7% p.a. versus 1,2% p.a.). Oil is likely to continue to provide about 40% of marketed energy, and will continue to be primarily used in the transport sector in the medium term. World CO₂ emissions is expected to increase by around 1,9% per annum. World climate change is likely to drive the search for alternative energy sources, but economically-viable alternatives are not expected before 2015.

A. Electricity

Electricity generation is expected to double between 2001 and 2025. Consumption of nuclear energy is currently expected to increase until around 2015, and to then taper off. However, global warming, higher fossil fuel prices and technological developments could improve the relative attractiveness of nuclear power. Eskom's "pebble-bed" technology could benefit significantly from this trend. Renewable energy sources are not likely to make a significant impact on traditional electricity generation in the study timeframe (till 2010), but will become increasingly important thereafter.

B. Gas

Natural gas is likely to replace oil for some electricity generation.

C. Water

The United Nations drive to reduce poverty in accordance with the Millennium Goals should increase demand for potable water in the developing world. Climate change will make weather patterns more volatile and unpredictable – increasing the international trade in water, and making water security a more important strategic issue for many countries.

3.4.5. Construction



Energy efficiency in both materials and facilities design is expected to become an increasingly important driver of the development of the sector. Self-monitoring infrastructure is anticipated by 2010.

3.4.6. Wholesale and Retail Trade and Accommodation

There is significant potential for technology to change the structure of trade. At the wholesale level, logistics networks will reduce the need for large stocks. At the retail level, options for “home-shopping” and internet-shopping will increase – although at a slower rate than generally anticipated some years ago. Bluetooth communications devices will enable direct communication with shoppers, which could have implications for traditional mass-based advertising.

Growth in tourism globally, and the rise in personal incomes in many countries, should support the continued expansion of the hotel sector. Personalised, individually-tailored tourism packages will probably grow faster than mass tourism products.

3.4.7. Transport and Communication

A. Transport

Growth in commercial transport should be derived from growth in global trade – i.e. around 4% per annum till 2010. Diversification of global economies should lead to a greater regionalisation of freight transport, as is already happening in Asia.

Tourist and business travel (predominantly by air) is likely to grow at a faster rate than commercial freight, but will be susceptible to shocks, and be more cyclical.

B. Communication

Traditional mass communication (newspaper, TV, radio) is expected to become increasingly redundant in favour of web-based communication. This trend will initially be constrained by the rate of expansion in bandwidth.

Movement away from hard-wired communication is expected to continue and accelerate. Strong growth in integrated communication devices will be sustained.

3.4.8. Finance, Insurance and Real Estate

International trade in commercial services (finance, insurance, transport) has been averaging growth of 6% per annum since 1990. This is likely to continue.

3.4.9. Community, Social and Personal Services

A. Social services



Government-provided services are likely to come under increasing financial and affordability pressures – in developed economies because of the aging population, and in developing economies because of the relative size of the young population. In both cases, this will place financing pressure on a comparatively smaller working class.

B. Personal services

The strong growth in this sector is expected to continue, and to diversify.

3.5. SUMMARY OF KEY ECONOMIC DRIVERS

1. Agriculture, Forestry and Fishing
 - a. Increased competition for SA from poorer countries with improved access to world's main markets
 - b. Positioning in relation to GM important strategic consideration
2. Mining and Quarrying
 - a. PMG metals demand likely to be strong going forward
 - b. Strong growth in demand for coal – particularly from China and India
3. Manufacturing
 - a. Significantly shorter product lifecycles in high value added products – implications for capital formation patterns (re-programming instead of re-tooling), and global marketing
 - b. Doubling of silicon chip capacity every 2 years – new applications
 - c. Greater “regionalisation” of trade and investment patterns
4. Electricity, Gas and Water
 - a. Energy demand growth in developing world double that of developed world.
 - b. Total electricity generation will double by 2025
5. Construction
 - a. Energy-efficiency of materials and design will increase in importance
6. Wholesale and Retail Trade and Accommodation
 - a. Technology to gradually change structure of trade through home/internet shopping
 - b. Tourism growth will be stronger than global average growth (6% plus p.a. versus 4% p.a.)
7. Transport, Storage and Communication
 - a. Greater regionalisation of international freight transport (in line with trade trends)
 - b. Redundancy of traditional mass communication in favour of web-based medium
8. Financial Intermediation, Insurance, Real Estate and Business Services
 - a. Stronger growth in international trade in commercial services (finance, insurance, transport, consulting) than global average growth
9. Community, Social and Personal Services
 - a. Demographics and disease will sustain health care growth.
 - b. On-going tensions with developing world over affordability, and “theft” of health care professionals.



- c. Developed world (EU) struggling to redefine government role in respect of pensions and health care

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